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Chapter2

Planning and risk assessment

CREATING GREAT OUTCOMES
through professional qualification training
and study abroad services and preparation

A ***Enquiries with management – understand the client***

B ***Analytical procedures***

C ***Observation and inspection***

Risk assessment procedures

8 Analytical procedures

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Analytical procedures

The evaluation of financial information in order to spot fluctuations and relationships that are inconsistent with other relevant information.

波动

不一致，矛盾

*"Evaluations of financial information through **analysis of plausible relationships** among both financial and non-financial data" and **investigation** of identified fluctuations, inconsistent relationships or amounts that **differ** from expected values.*

- ISA520

8.1 Key ratios used in analytical procedures

Area	Ratio	Calculation
Profitability	ROCE (TALCL=Total Assets Less Current Liabilities)	Profit before interest and tax / TALCL
	Gross profit margin ☆	Gross profit/Revenue ×100%
	Operating profit margin	Profit before interest and tax/Revenue ×100%
Liquidity	Current ratio ☆	Current assets/ Current liabilities
	Quick ratio(acid test) ☆	(Current assets – Inventory)/ Current liabilities
	Inventory days ☆ 存货的周转天数 默认365天	Inventories/Cost of sales ×365 days
	Receivables collection period ☆ 应收	Trade receivables/Credit sales ×365 days 找不到用revenue代替
	Payables payment period ☆	Trade payables/Credit purchases ×365 days
Gearing	Debt/equity	Interest bearing debt/ Capital and reserve

Summary of analytical procedure

- ***3 compares:***

  present data compared with 1) Past; 2) Future (budget / forecast); 3) Benchmarking company in the same industry or industry average data.

– ***4 analysis:*** F8一般和过去比

1) **Annually, quarterly, Monthly, weekly, Daily Fluctuations analysis.** 分析频率
2) **Relation between B/S item & I/S item (PPE/dep.; loan/interest;)** 资产负债表和利润表之间的关系
3) **Relation between financial and non-financial data. (staff number; electric power usage)** 分析财务和非财务数据
4) **Relation between agreement & ledger (e.g. proof in total 匡算; Loan interest / Lease expense. Etc.)** 分析和合同和账之间的关系

– ***3 stage application:*** 分析风险

1) **Beginning – Preliminary Analytical Review in Risk Assessment stage** Cha2
2) **Substantive Analytical Procedure (SAP) (substantive stage)** Cha4
3) **Final Analytical Overall Review** Cha5

分析性复核在控制测试时不需要使用，其他都需要使用

9 Interim and final audits

预审和年审

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- **Interim audit focuses on:** 风险的分析

(i) Inherent risk assessment and gaining an understanding of the entity

(ii) Analytical review of the statement of profit or loss 重点关注利润表，利润表是一个累积的状态，资产负债表是一个瞬时的状态

(iii) Tests of control on the company's internal control system

- **Final audit takes place after year-end and focuses on year-end balances:**

(i) Follow up of items noted at the inventory count 跟进存货盘点中的事项

(ii) Detailed substantive testing, verifying the year end balances 重点测试年末余额

(iii) Obtaining confirmations from third parties, such as bankers and lawyers 确认书和函证

(iv) Reviews of subsequent events after the reporting period 期后事项的复核

(v) Consideration of the going concern basis 持续经营的考虑

每年必考

Timing & Focus

Interim audit

- *can be completed part way through a client's accounting year;*
- *allow auditor to spread out their procedures and ease the pressure on final audit;*
- *focus on documenting systems and evaluating controls.*

Final audit

- *take place after the year-end;*
- *focus on remaining tests and areas with significant risk of material misstatements.*

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Interim audit

It can also be used to

- *assess risks that will impact work conducted at final audit*
- *test specific and complete material transactions, like purchasing new non-current assets*
- *test transactions such as sales, purchases and payroll*
- *attend perpetual inventory counts*

CR控制风险

预审时不需要考虑折旧，
管理层有可能调整折旧，
浪费人力。在预审时考虑固定资产的新增和处置

Final audit

It involves concentration on

- *SOFP balances*
- *testing transaction that have occurred since the interim audit took place*
- *year end journals adjustments*
- *obtaining evidence that controls have continued to operate since interim audit took place*
- *year-end inventory count*

年审时也可能进行控制测试，做控制测试时不需要全部测试，可以抽样

Impacts

*--**Fewer substantive procedures** will be performed if*

- *controls tested at the interim stage provided evidence that **control risk is low**;*
- *some substantive procedures were performed at the interim stage.*

*--**Less time** spent on final audit and **audit report** can be **signed closer** to year end*

*--If controls risks were found high, **more work required** in final audit*

Practice

Specimen Paper

The finance director has requested that the deadline for the 20X6 audit be shortened by a month and has asked the audit engagement partner to consider if this will be possible. The partner has suggested that in order to meet this new tighter deadline the firm may carry out both an interim and final audit for the audit of Milla to 30 September 20X6.

Required:

(d) Explain the difference between an interim and a final audit. (3 marks)

(e) Explain the procedures which are likely to be performed during an interim audit of Milla and the impact which it would have on the final audit. (4 marks)

10 Audit documentation

审计记录和审计文档

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✓*Provides evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements;*

✓*Provides a sufficient appropriate records of the auditor's basis for the auditor report;*

✓*Assist future audit teams to plan and perform future audits;*

✓*Assist in the direction, supervision and review (quality control) of audit work.*

✓*Useful in training staff (especially if new to the firm)*

PURPOSE/BENEFIT

10 Audit documentation

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10.2 Contents of the auditor's working papers

- Name of client and year-end date
- Title identifying the area of the financial statements being audited and the topic area PPE-Addition Disposal Depreciation
- Who performed the audit work and the date such work was completed
- Who reviewed the audit work performed and the date and extent of such review 实务中签英文名+姓 Aria H
- The nature, timing and extent of audit procedures performed;
- The result of the procedures performed and evidence obtained;
- The significant matters arising during the course of the audit and the conclusions reached thereon, and significant professional judgements made in reaching those conclusion

TYPE

Two types of audit documentation:

--permanent file: *(KOB)name of management, system information, background to industry and client's business, title deeds, directors' service agreements and copies of contract*

--current file: *working papers related to planning, performance and completion*

*Documentation should be assembled in a timely fashion(**not more than 60 days** after the date of audit report) and retained for a period **no shorter than five years** from the date of auditor's report.*